Survey: Oil, Gas Companies to Increase Capital Spending Plans Outside U.S., Canada

By OGJ editors

HOUSTON, Apr. 10 -- Oil and gas companies generally expect to increase their upstream capital spending plans over the next few months, particularly for projects outside the U.S. and Canada. Also, pricing expectations for oil field products and services are expected to decrease in the U.S. and Canada, while they will likely increase in the rest of the world.

These are some of the findings of UBS Warburg LLC's second edition of its monthly PatchWork Survey. The survey compiles responses from oil and gas operating personnel, who are polled monthly as to their expectations of price and activity level. UBS Warburg released its first survey last month (OGJ, Mar. 25, 2002, p. 7). The responses underpin an index pegged to a weighted average ranging from 100 to -100. The size of a positive value indicates the relative sentiment for an increase in that price or activity, and the converse is true for the negative values.

Oil, gas price expectations

Survey respondents this month said that they were basing their expenditure plans on an average oil price of $20.55/bbl. Oil and gas companies' upstream outlays typically are tied to cash flow, which in turn hinges largely on commodity prices, UBS explained. "Assuming current pricing trends are maintained for a reasonable period of time," UBS said, "it is logical to expect oil company spending to increase."

Regarding their projections for natural gas prices, respondents slashed their range from the last survey, UBS noted, putting the low at $3/Mcf vs. $2/Mcf a month ago. The average price, however, stayed about the same at $2.59/Mcf, the firm said.

Capital spending, drilling plans

The survey revealed that 32% of those respondents in the U.S. and Canada indicated plans to decrease spending, with 26% expecting to increase spending. Of those companies outside the U.S. and Canada, 24% said they would increase spending, while the same percentage said they would decrease spending.

"The recent surge in commodity prices should further encourage oil companies to loosen their purse strings and to start spending again," UBS said. "If commodity prices manage to stay near their current lofty levels, which are far above the levels built into any respondents' spending budget, we expect the risk of further declines in expectations to be minimal," UBS added.

UBS noted that the drilling index for the U.S. and Canada showed a similar trend as did the spending index, at 7. Outside the U.S. and Canada, the index inched up marginally from the month prior, reaching 4. "With spending expected to be flat internationally and drilling expected to be up, something has to give," UBS observed, adding that the potential exists for money allocated for workovers may be "rerouted" to drilling activities.

Over the next few months in the U.S. and Canada, workover activity is expected to remain flat, as will be the case in other parts of the world, the respondents indicated.

Service, product pricing

Expectations for product and service pricing in the U.S. and Canada—although remaining "solidly negative"—have improved over last month, according to respondents. "Perhaps operators are starting to believe that they are getting closer to squeezing as much as they can from oil service companies and that the bottom is near," UBS suggested.

Meanwhile, "Internationally, respondents expected prices for oil field services to increase marginally in the next 2 months, reversing the negative expectation that they had last month," UBS Warburg said.

UBS found that the outlook for every product category, save for logging and drill bits, improved from last month for the U.S. and Canada. "The lower rig count probably accounts for this expectation," the firm said.

As in the U.S. and Canada, product and service pricing expectations improved for the rest of the world, according to respondents. The most substantial changes from last month, UBS noted, were in directional drilling, measurement while drilling, logging while drilling, and drilling fluids. Last month, these categories had negative pricing expectations.

"It is not surprising that oil field personnel, accustomed to rapid changes in business conditions, have changed their tune with the continued strength in oil and gas prices," UBS concluded.